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Policy's beneficiaries of corporate governance and diversification strategy

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Abstract

The present study is highly important because, when used properly, it can lead to an immediate positive impact on organizational management. Therefore it offers the chance to cumulate the interests of all stakeholders of a company, leading it upward. The study pays special attention to prospects for management/diversification/corporate governance in an attempt to provide an objective perspective on the system, highlighting those weaknesses that require intervention. Governance started in Romania, in conceptual terms and regulations, in the early 2000s. The delay is explained by the fact that the political, legal, economic and social realms were developed slowly and difficultly. Recently however, the context of corporate governance in Romania has changed. Accountability and transparency have become key factors not only for shareholders, but also for investors, lenders, suppliers and other parties involved. Good corporate governance adds value and helps reducing the cost of capital, providing effective financing capital from bidders. In this context, it is worth analyzing, based on statistical data, the degree of development of corporate governance in Romania. Indicators are tied to the board's attributes, in particular board structure, size, independence, frequency of meetings and other factors. The source is the official data published by companies listed on the Bucharest Stock Exchange (BVB). The results will be compared with results of other studies conducted in the case of emerging countries and the European average. The relationships between public managers and owners of financial or non-financial interests must be built on the corporate governance principles.

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Keywords: corporate governance, emerging indicators of corporate governance, disclosure, level of compliance entities;

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1. Introduction

During 1990 a range of information in the field of strategic management with strong influence corporate diversification on firm value. Closer to the time where we are today in terms of management and corporate governess were advanced some arguments about the benefits of this strategy.

Many studies have tried to discover the difference that exists between companies and the difference between localized effects at the company, leading to the idea of corporate governance, the main role being to correctly and efficiently manage the resources and bring profit more rapidly.

Corporate governance defines a set of relationships and responsibilities between people involved in companies and external stakeholders, establishing rules, policies and procedures appropriated for the management, administration and business control.

Lately I've noticed on the international market more and more statements coming from various companies which informs us about the steps they have taken to improve corporate governance system. Headlines inform us on corporate initiatives in this area, and this is because they want to show the public and investors that take the practice seriously.(Anderson, R., Bates, Thomas, Bizjak, John M si Lemmon, M. 2000)

Although various governments and regulatory authorities insist a while on the subject, corporate governance has been in the attention of the media, investors, and more importantly, the companies for just a few years.

The subject has come in the spotlight after a chain of events, namely a series of highly publicized scandals that created a sense of anxiety and a lack of confidence on the international capital market. It all started with the collapse of energy giant Enron, which practically became a symbol of contemporary corporate fraud, and continued with a considerable number of companies that have failed as dramatically. WorldCom, Tyco, Parmalat, Comroad are just a few examples that have shaped the global scope of corporate failure.

Therefore, there were doubts about whether investors should make correct decisions based on information provided by companies and the capital market. The question of whether these scandals were simply the result of a lack of integrity of leaders or the result of flaws in the legislation was a natural one. The fact is that due to these events was spread an atmosphere of doubt and uncertainty in the stock market.(Belkaoui, Ahmed şi Pavlik, Ellen, 1992)

In response, governments and competent bodies have initiated various changes, tightening corporate governance laws and especially introducing sanctions aimed to force companies to adopt transparent and ethical policies .Currently, most of the developed and developing countries have a Code of Corporate Governance issued by various regulatory bodies. Among the best known are Sarbanes-Oxley Act in the U.S., Great Britain's renewal code at the initiative of Derek Higgs, Cromme Code of Germany, the French Financial Security Law. Romania does not have a formal corporate governance code, but BSE is currently working on a formal code that will be soon published. Corporate governance is a set of "rules of the game" by which companies are managed and supervised by the board of directors, in order to protect the interests of everyone involved. It "specifies the distribution of rights and responsibilities among different participants in a company and the board, managers, shareholders and other parties involved, and specifies the rules and procedures for making decisions about your business. Therefore, it provides the structure through which the company's objectives and means of achieving and they are monitoring the performance.(OECD 1999)

Spectacular bankruptcies, financial crises and the gap between compensation of directors and corporate performance in the last three decades have shown that the establishment of corporate governance is not just a mean of survival today, but a strategy to thrive.

Governance helps companies attract investment and increase its economic performance and competitiveness in the long term. Such support is achieved particularly by the fact that corporate governance requires transparency on all transactions and adoption of standards for transparency in dealing with investors and lenders. In addition, corporate governance improves company management by limiting the abuse of power by those inside the company's resources and provides the means to monitor the behavior of managers to ensure corporate responsibility. (Oman, C., Fries, S., Buiter, W. 2004)

Since the establishment of corporate governance is clearly beneficial for companies, the developed countries have made substantial efforts to improve it. The change of governance systems became apparent, inter alia, with the adoption of good conduct codes. Rules of conduct translation, codes of practice promulgated effective by enterprises reveals a choice not mandatory, although it may be about some pressures for compliance. Presently, there can be identified approximately 180 codes worldwide which are characterized by a high degree of convergence in terms of their content.(Aguilera, R., Cuervo-Cazurra, A. 2004)

Born in the context of developed countries, the recommendations of "best practice" governance were disseminated across borders. Emerging countries were among those interested. For corporate governance measures have impact in an economy, however, there must be a set of democratic institutions of the market economy. Therefore, the establishment of corporate governance in emerging countries requires more than taking well-designed models that operate in developed economies.

A transition from institution to institution relationship-based governance that is based on rules must be accomplished . This transition is difficult because the possible expropriation might affect individuals and groups engaged in conflicts for economic and political power.(CIPE. 2002)

This research aims to analyze the principles of corporate governance used by companies in emerging economies where competitiveness in the context of today's global economy is more difficult.

2. Corporate governance in Romania

Corporate governance occurs in our country, in terms of conceptual and regulations at the beginning of 2000. The delay is explained by the difficult steps taken on the political, legal, economic and social line. Government policies to liberalize the economy after the anticommunist revolution still delayed after a decade of semi capitalism. It is a virtual absence regarding the sector of development strategy to capitalize traditions, human and technological resources of the Romanian society. The Bucharest Stock Exchange has marked the first trading since 1995.

Securities Commission fulfills its task of monitoring the movement of doubtful value. In order not to analyze in detail and lack of involvement "de facto" in quality control information published by listed companies in their financial reports being on the same page with what modern policies represent for recognition and measurement of various financial investment.

On the other hand, the difficulties faced by the banking sector in the past decade led to his minor involvement in the financing system and the lack of trust that their partners have manifested, plus the shareholders minority, in the case of Romanian financial institutions with foreign capital.

Consequently, it is difficult to accept that the attribute of a functioning market economy can be associated to Romania, without admitting a dose tolerance from the European partners. (Feleagă, N., Feleagă, L., Voicu, D., Bigioi, D. 2011)

It is in this context that, in 2001, BSE has created, for admission to BVB, Plus category ("a more transparent") and adopted the first code of corporate governance. Listed companies could promote Plus category only after integrating in their articles of association provisions of the Code of Corporate Governance. This approach had the expected success, one company asking promote Plus category.

In subsequent years, BSE has created Corporate Governance Institute, which is committed to educating issuers listed on the promotion of standards appropriated for the corporate governance, and has been an active participant in finding the best corporate governance practices, contributing to the adoption of the White Paper on Corporate Governance in South Eastern Europe countries. However,the implementation of corporate governance in Romania has some fundamental inconsistency:

- lack of detailed analysis on the relationship between owners and managers;

• poor involvement of other parties participating in the process of making decision;
• lack of a conceptual framework for an efficient market and societal implications;
• questionable involvement of auditors in promoting corporate governance;
• failure of reforms to implement an accounting system in line with international developments;
• weakness of control mechanisms for honest financial information is relevant, reliable, understandable, comparable and meaningful.

In 2008, BSE has adopted a new Corporate Governance Code, which is based on the OECD principles of corporate governance. Code came into effect from fiscal year 2009 and implemented voluntarily by companies traded on the regulated market operated by BSE. Companies that decide to adopt all or part of its annual must submit a statement to the BSE compliance or non-compliance with the Corporate Governance Code (the "Comply or explain"), in which specific recommendations were effectively implemented, as and method of implementation.

BSE Corporate Governance Code is similar to those adopted by other EU member states and provides new recommendations for compliance, important for directors and boards at the head of Romanian companies.

BSE considers the Code as having suppletive character to other laws of Romania applicable to companies traded on the regulated market (for example, company law, accounting law, capital market law, etc.).

A simple definition of corporate governance as all the systems and processes in place to manage and control a company in order to increase its performance and value. Basically, it refers to effective management systems, management insisted on the Board, the compensation of responsibility and credibility of financial statements and the effectiveness of risk management systems.

In principle it is refering to decision support and control of a company, obtained through formal and informal rules and procedures, internal or external imposed by the competent bodies, implemented at both strategic and operational.

Yet, despite the rich literature and pressure from the media, there are still confusions about corporate governance and the role. Thus, many companies continue to have a look narrower, somewhat pointed to the ethical side and to the degree of transparency required of listed companies without doing now to maximize company value. True, corporate governance insist on ethical principles and social responsibility (CSR), but all the rules and procedures they have promoted an end: increasing company value. Basically weigh compliance with regulations on corporate performance. (Feleagă, N. 2008)

3. Corporative governance makes the difference

Recent studies link the performance of the company and effective corporate governance model. Investors give great importance to the newest corporate governance systems implemented in a company and are willing to pay extra for good results in this area.

Companies are well aware of this reality and give considerably more weight compared to previous years. Good and bad examples of the international market speak for themselves. Thus, on the one hand, there are companies that have put a lot of effort and time to achieve high standards of corporate governance and CSR. As a result, they are perceived as exponents of governance based on added value, being able to maximize corporate value through systems and processes that allow the manager PARTIES, regardless of hierarchical level, to assess and monitor its performance ratio.

The other side is represented by the companies that failed to build corporate governance puzzle and have a transparent approach to the various stakeholders (en. Stakeholders). Therefore, deficiencies in systems organizations because they surface and prove to be more than inappropriate, sometimes with disastrous results. Finally, test the effectiveness of a company's governance model is the extent to which fails to achieve its primary objective, namely that of maximizing shareholder value as a company. It's all about how it manages to hold a closed ideal: customer satisfaction, employees, suppliers, distributors, and so on, the payoff is, if good results, enhanced and sustainable value.

Considering the trend of the international market, a natural conclusion is that corporate governance will remain on the list of top management time to come. It comes down to a simple reality: companies that adopt a culture of transparency and effective corporate governance model will have a much better performance and those who refuse to accept this reality and, more recently, necessary, will record poor results.

It goes without saying that the market volatility, combined with pressure from shareholders and economic uncertainty will create prerequisites risk that top management act ethically incorrect. By tracking the importance of effective governance model controlling and evaluating corporate performance, interworking while satisfying the needs of all stakeholders and thus creating added value will increase even more. And yes, in these circumstances, corporate governance is far from being yet another bureaucratic layer. It is more than a tool that helps maximizing company value.

Corporate governance has emerged and developed in the last century, influenced in turn-based economic backgrounds, family-owned bank capital, institutional investors or limited liability companies, streamlined media scandals that occurred in response time. Surprisingly, the same time of crisis had a beneficial effect on identifying ways to improve corporate governance, which corresponds to the next stage in the evolution of the economy.

Corporate Governance continues to be in a process of adaptation to the demands of a modern economy, globalization increasingly obvious social life and also the information needs of investors and third parties interested in the business.

In an opinion by corporate governance mechanisms means that a company is managed and controlled, or in another definition, corporate governance is all the systems and processes in place to manage and control a company in order to increase its performance and value.

From our point of view, modern corporate governance is for companies what democracy was for the ancient states. Corporate governance is nothing more than the application of fundamental democratic principles in an organizational typology as a company.

The definition of democracy says that it is a form of organization and political leadership of society through public consultation, taking into account their readiness, interests and aspirations of the country's progress. It is government by the people, and supreme power being exercised by the people directly or by the elected representatives under a free electoral system.

Based on this, we can say that corporate governance is a form of organization and management of a company, the decision is taken in consultation shareholders, respecting their will and their interests. It is government by shareholders belonging to them and the supreme power exercised directly by them under general or indirectly through elected representatives or the Supervisory Board of Directors in order to pursue the interests and aspirations of the shareholders.

But corporate governance is not just that. It also refers to the effectiveness of management systems, mainly the role of the Board and the Directors, the responsibility and pay, the credibility of the information provided and the effectiveness of risk management systems.

Corporate governance also refers to the set of formal and informal rules and procedures, internal or external, that are imposed by the competent bodies, or by national or international legislation, implemented strategic and operational level.

Corporate governance is not just to maximize the company's value, although this is its primary purpose, but also it refers to the side at the level of ethics and transparency, social responsibility (CSR), especially considering that the phenomenon of globalization and some companies are supranational entities which often undergo multiple jurisdictions or they can choose the jurisdiction that is more favorable. In these circumstances, the principles and rules of corporate governance, as will be, enacted a specific date will be generally available and universally applicable, and the values and principles that will guide may not be outside the scope and democratic values .

4. Corporate governance is how modern companies rule

Recent studies linking corporate performance and effectiveness of the corporate governance model. Shareholders show great importance to corporate governance systems, implemented in a company willing to pay extra for good results in this field, since only they are guaranteed treatment, equal and fair.

Companies are well aware of this reality and give considerably more weight compared to previous years. Good and bad examples of international market are evident. Thus, on the one hand, there are companies that have put a lot of effort and time to achieve high standards of corporate governance. They are perceived as representatives of governance based on added value, being able to maximize corporate value through systems and processes that enable their governing bodies to perform.

On the other side there are the companies that have failed or have not wanted to apply principles of corporate governance and have the proper approach to the various stakeholders. The weaknesses in the systems concerned organizations resurface and prove to be more than inappropriate, sometimes with disastrous results.

Finally, the test of the effectiveness of a company's governance model is the extent to which succeeds to achieve the main objective, namely to fulfill the mission and strategy of a company in terms of shareholders' interests.

Given the trends in the international market, a natural conclusion is that corporate governance will remain on management and investors list a long time to come. It comes down to a simple fact: companies that adopt a culture of transparency and effective corporate governance model will have a much better performance and those who refuse to accept this reality and, more recently, poor results must be recorded.

The global crisis, combined with other factors such as market volatility, pressure from shareholders and economic uncertainty will create prerequisites for the management or other actors to act ethically incorrect. Therefore, the importance of effective corporate governance model that controls and evaluates the performance of the company, while satisfying the needs of all stakeholders and thus creating added value will increase even more.

In Romania, the concept of corporate governance is a little known concept. Corporate governance is the combination of controls that operate together to regulate the relationship between those who have an interest in the company:

- shareholders;
- management;
- employees;
- customers;
- suppliers etc.

Legal sources governing this type of relationship is found in the law on companies, insolvency, etc various financial regulations.

One of the specific provisions of this concept is the need to separate the Board of management of the company. The Board of Directors should seek to work management and ensure that it is accurate reporting to shareholders. This can happen when the Board of Directors is the same person as the director of a company.

The corporate governance aims at increasing the company's performance and harmonization of various interest groups. In particular, after the great scandals that rocked companies like WorldCom or Enron, governments and supervisory authorities have focused their attention on establishing a more effective system of corporate governance.

One of the organizations that focused on the implementation of corporate governance regime is OECD. OECD Principles aim to ensure a transparent and respectful frame of the law, clearly specifying the rights of shareholders (eventually, corporate governance must defend the rights of shareholders), transparency of information, establishing the role of the Board so that it takes into account the interests of different groups of shareholders etc.

5. The principles and beneficiaries of corporate governance are:

- Respect for the rights and equitable treatment of shareholders;
- Respect for the rights and interests of all stakeholders (owners of interests);
- Define clear roles and responsibilities for the Board of Directors;
- Integrity and ethical behavior of the management team;
- Transparency and fair presentation of the results and future prospects.

Other interpretations:

Corporate governance is the way in which providers of financial resources of a company shall ensure that they receive the benefits they expect making this investment.(Shleifer and Vishny. 1997)

Corporate governance can be defined as the relationship of a company to its shareholders or, more broadly, to society as a whole.(Financial Times, 1997)

Corporate governance specifies the distribution of rights and responsibilities among different categories of people involved in the company, such as the Board of Directors, directors, shareholders and other categories, and establishes rules and procedures for making decisions on a company's business. (OECD in April 1999 taken from the Cadbury Code. 1992)

Corporate governance is a set of rules under which companies are directed and controlled, is the result of norms, traditions and behavioral patterns developed by each legal system. (Oman, C., Fries, S., Buiter, W, 2003)

Corporate governance refers to promoting fairness, transparency and accountability at the company. (J. Wolfensohn, President of the World Bank, quoted in an article in the Financial Times, June 21, 1999)

Corporate governance is the branch of economics that studies how business can become more efficient through the use of institutional structures such as the articles of association, organization and legal framework. This branch is limited in most cases, the study of how shareholders can ensure and motivate executives, so that they receive the expected benefits from their investments.(www.encycogov.com, Mathiesen. 2002)

Statutory framework in which companies manage their relationships with shareholders is given by law the company, which primarily reflects the company's statutory obligations and requirements. The non-statutory, which is included in the Combined Code of Governance, indicate both institutional obligations of the company and shareholders.

The latter is a powerful corporate governance mechanism that can monitor their influence on company management because their influence on company’s management can be fundamental and can be used to alleviate the interests of management with those of shareholders. Several arguments of the active involvement of institutional shareholders in corporate governance of companies in which they invest focus on the main assumption that good governance can help to sustain or increase long-term value.

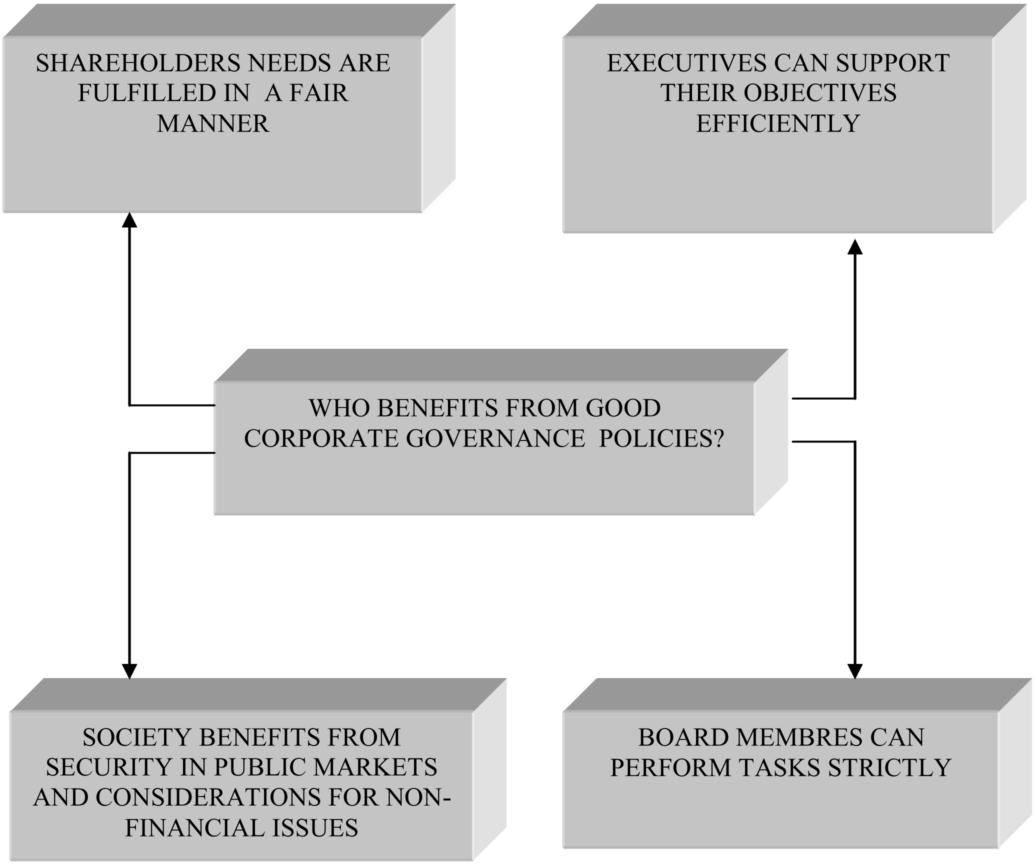

Figure no.1 Beneficiaries of an efficient corporate governance policies (*Sursa / Source (Anand S., 2008:82)*)

6. Diversification strategy rules implemented in companies

Business Policy as task management and accountability that exists between partner companies, should be considered as a strategy of diversification.

Each company chooses the way of a deal that will involve the extent to which they will use the resources available and appropriate degree of diversification for the enhancement of the relationships with stakeholders.

The diversification has an important role not only in personal INVESTMENTS, but also in corporate strategy.

The cause that supports investment theory is that diversification reduces risk without affecting income, unlike investment diversification. Corporate Diversification is an organization entering into a new business segment, either through internal development processes of the business, either through acquisition, which generates changes in administrative structure, organization and functioning of internal systems and management process.(Anderson, R., Bates, Thomas, Bizjak, John M si Lemmon, M. 2000)

Determinants of diversification, such as resources, administrative reasons related to diversification, and aid in the external environment (legislation in the field) and the company's internal environment (risk reduction), the most common reasons for diversification strategy are:

• economies of scale and scope;
• market power;
• establishing profit;
• improving financial performance;
• increasing firm size.

Important factors to limit excessive diversification that can lead to problems within the company are the governance mechanisms that serve to deter and mitigate the effects of management actions aimed at obtaining administrative gains but not to corporate objectives and affect the in Consequently the company's financial performance.

7. Conclusions

Considered appropriate conducting extensive research in this area, there where we have sufficient development opportunities to improve those areas that can be extended to companies in the banking sector and in the public domain and can check if a variable accounting for a group of companies produce meaningful results.

Transparency, fairness and credibility in relation to shareholders, effective communication, compliance with the law, taking responsibility, are essential to ensure good corporate governance. For the entity whose securities are admitted to trading on a regulated market capital to benefit from stability in terms of attracting funding through global capital markets, specific corporate governance processes must be characterized by these principles.

Corporate governance is recognized as a key element in attracting investment and increasing economic performance and competitiveness in the long term. Globalization of financial markets has contributed to the disparity between advanced economies and emerging economies in terms of governance implementation. Torus, because of cultural, economic and social, especially when it is compared with developed economies.

In Romania, corporate governance has emerged in terms of conceptual and regulations in the early 2000s. The first corporate governance code was adopted in 2001. In 2008, he was replaced by a new code of corporate governance, which is based on the OECD principles. The new code is applied voluntarily by companies traded on the BSE regulated market. Indicators were related attributes detained Board: size, structure, frequency of meetings, independent distinction between board chair and CEO, and disclosure of information.

Results showed that the majority of companies of the pattern do not respect the Governance Code recommendations regarding independent directors and audit committee members. In addition, for most of the analyzed company, their degree of transparency is much lower than the European society.

The importance of corporate governance to the success and welfare of the public interest entities can not be underestimated. In the spirit of good investor relations, management of most companies listed on the Bucharest Stock Exchange understands the necessity of adopting some principles of this effective government, as confirmed by the fact that these companies have adopted and obey rules BSE Code of Corporate Governance.

Although a proper corporate governance principles insist on ethnic and social responsibility, rules, policies and procedures that it promotes a well-defined final goal, i.e. sustainable growth of company value.

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